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February 24, 2020

BY ECF

Hon. P. Kevin Castel
Daniel Patrick Moynihan United States Courthouse
500 Pearl St.
New York, NY 10007

Re: *Securities and Exchange Commission v. Telegram Group Inc. and TON Issuer Inc.*,
1:19-cv-09439-PKC

Dear Judge Castel:

I write on behalf of non-party Investor X. On February 4, 2020, Investor X filed a Motion to Seal Exhibit PX32 in support of the SEC's Motion for Summary Judgment. *See* ECF Nos. 148–151. Investor X sought to seal PX32 in its entirety in order to preserve confidential commercial and financial information.

On February 13, 2020, the SEC filed its opposition to Investor X's motion to seal and instead proposed redactions to PX32. *See* ECF No. 190. The parties conferred and reached an agreement regarding appropriate redactions to be made to PX32 in light of the confidential business information contained therein and in lieu of sealing the entire document. We have attached to this letter a redacted version of the document. An unredacted and sealed version of PX32 was filed with this Court on February 13, 2020. *See* ECF 188, Attachment 12.

The proposed redactions are narrowly tailored to cover confidential investor-identifying information, investment allocations, and due diligence information. Publication of this business information would harm Investor X's competitive standing; therefore, there is good cause to seal this information under Federal Rule of Civil Procedure 26(c). *See Dodona I, LLC v. Goldman, Sachs & Co.*, 119 F. Supp. 3d 152, 154-55 (S.D.N.Y. 2015) (noting that courts routinely permit sealing of documents that contain "sources of information that might harm a litigant's competitive standing"). Investor X respectfully requests that the Court allow PX32 to be filed with these partial redactions, which both parties have agreed to.

Respectfully submitted,

KEKER, VAN NEST & PETERS LLP

/s/ Victor H. Yu

Victor H. Yu

PX32

Telegram Group Inc./Telegram Open Network (TON)
Decision to Invest

01/29/2017

In Short

Telegram Open Network can make decentralized apps mainstream.

Deal Overview

[REDACTED] to invest in the token sale by Telegram Group, Inc./Telegram Open Network (TON), investing \$12.5M as a part of \$850M round at an initial post money market cap of \$1.88B. [REDACTED]

[REDACTED] own 66bps of all grams (the token to be used on TON), and these grams will be locked up from distribution, to be released in 25% tranches over a period of 18 months after the network launch.

Telegram has a vision to build the first mass-market cryptocurrency. To execute on this vision, Telegram plans to leverage its large and engaged userbase and an existing ecosystem of developers, merchants, and payment providers. Also, they plan to address the scaling and governance challenges faced by various blockchains and build the foundational components like DNS, proxy, storage, etc. that developers can use to build decentralized apps on top of TON. This vision is extremely ambitious; if Telegram is successful in implementing its plans, TON could be one of the most valuable cryptoasset in the market.

Telegram was founded by Pavel Durov and Nikolai Durov, brothers who previously co-founded the VK, which is Russia's largest social network.

Top Three Reasons Why We Have to Invest

1. TON can leverage Telegram's user base to bootstrap a new blockchain

Unlike other new blockchain initiatives like Polkadot, Cosmos, Dfinity, Hashgraph, and Kadena that are trying to solve the scaling and governance problems and take crypto mainstream, TON has an effective way to bootstrap the blockchain by leveraging Telegram's 200M active users. Also, nearly 84% of the crypto projects have an active Telegram community, which provides TON an engaged group of users to build upon. Based on our estimates there are 25-30M people who have access to digital currency, and TON should be able to add the same number of users in a matter of months after network launch.

2. Telegram has one of the strongest teams in the crypto space

Telegram has one of the strongest teams that we have seen in the crypto space. While they have less blockchain-specific background than some other teams in the space, they do have experience building scalable, decentralized systems as a part of Telegram. Further, these systems have the same underlying principles as blockchains (without the economic layer of a cryptoasset). Also, Telegram founders have a product philosophy that aligns with crypto. From the beginning they have built the app with an emphasis on privacy, free speech, and distributed technology. Moreover, as evident by the success of Telegram app, the team has a track record of shipping interfaces that are intuitive and easy to use, two qualities that are missing in almost all crypto apps. Finally, the raw horsepower of the core team is impressive; Telegram's developers have won ACM ICPC (one of the toughest programming competitions in the world), as well as a number of Top Coder challenges and nationwide programming competitions.

3. Existing developer ecosystem and use cases to support the adoption of grams

TON has reserved 10% of grams to incentivize adoption of TON protocol. Many blockchains and decentralized apps have similar reserves but they do not have an existing developer ecosystem that they could incentivize to build decentralized apps (Dapps) to drive adoption of the native crypto asset. Through its integration with Telegram, TON can incentivize thousands of existing Telegram bot developers that have built more than 800k bots to build DAPPs on top of TON platform. When coupled with its large user base, this initiative can create a ripple effect to drive the adoption of grams.

In addition to the developer ecosystem, Telegram also has many use cases that would benefit from the adoption of grams. Currently, Telegram channels and groups (reaching close to 80M users) rely on advertisement and promotion of other groups for monetization. There is a lack of transparency and accountability for both advertisers and admins of these groups and channels; we believe this can be fixed by leveraging the TON ad exchange where all the transactions and user interactions are in grams and recorded on the TON blockchain.

Top Three Things That Will Keep Us Up at Night

1. Extremely ambitious but short on details

The scope of what the TON team is proposing is extremely ambitious. The white paper talks about what they plan to do but is short on details about how they plan to do it. In order to execute on their vision of making TON the first mass-market cryptocurrency, the Telegram team plans to implement proof of stake, instant hypercube routing, infinite sharding, and 2-D distributed ledgers, but the white paper omits details on how they would overcome the well-known challenges faced by others attempting to do the same. Also, they mention that they will implement various components of TON protocol like TON Storage, TON Proxy, TON DNS, TON Payments, and TON Services to facilitate the development of apps on TON, but again fail to detail their plans for execution or address whether they have sufficient resources to implement these components, each of which is a massive undertaking.

2. High valuation based on hype rather than fundamentals

In the last one year, the crypto market cap has grown 18x, but the user base has grown more slowly. In the meantime, few applications for crypto have emerged as viable use cases beyond store of value and fundraising. The rise in crypto market cap seems to be primarily fueled by speculation and the ICO boom (>\$5B raised in the last twelve months). In many ways, TON looks like the ultimate byproduct of this momentum and hype – it is raising more money at a higher market cap than any other token sale. This may prove justified since TON is the biggest consumer company pursuing a token sale to date, but given the lack of fundamentals of the current crypto rally, it is possible we are paying well beyond a fair price and beyond what is required for the development of the protocol.

3. Unclear if TON protocol development is the highest priority for Telegram


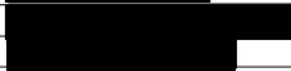








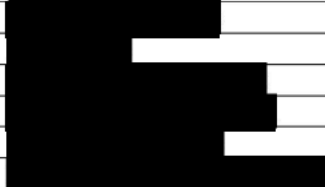

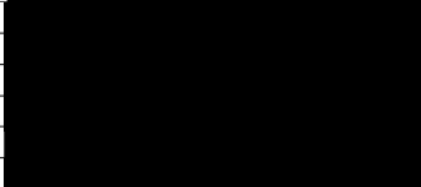
The purchase agreement explicitly states that “a significant portion of the funds generated by this Purchase Agreement and the Other Purchase Agreements are expected to be retained by the Parent for its own purposes rather than committed solely to the development and launch of the TON Network”. Protocol development might be underfunded or deprioritized relative to app growth; it is possible that Telegram could reach billions of active users without ensuring upside for token holders. At worst, TON may end up looking like a side project for the Telegram team. Also, based on what we know today about how grams will be distributed, it is not clear if Pavel’s (and the rest of the teams’) incentives are aligned towards the development of the protocol. Finally, we haven’t seen any code for the TON blockchain, and the roadmap is bare bones; we are investing in the promise of a new blockchain rather than an actual product, and trusting the team a great deal in the process.

Are We Thinking Big Enough, and What Needs to Happen for Success

We [REDACTED] invest \$12.5M USD in a \$850M round at with a \$1.88B post-money market cap. [REDACTED]

If TON fulfills its technical vision, we believe that TON can leverage its existing user base and developer ecosystem to become one of the most prominent blockchains. If it becomes as big as ETH, TON could have a market cap of \$75B, which would be 40x on our investment. [REDACTED] Once TON are listed, we will have the opportunity to increase our position; if we like what we see in terms of usage data and development work, we could bring our TON investment to a size where it stands to return [REDACTED]

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